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## THESIS

THE FINANCIAL IMPACT OF THE UNTIMELY CONTRACT  
CLOSEOUT PROCESS AND RECOMMENDATIONS  
FOR A STREAMLINED APPROACH  
TO IMPROVING THE PROCESS

by

Thomas S. Bethmann  
December, 1990

Thesis Advisor:

Leslie J. Zambo

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PROCESS AND RECOMMENDATIONS FOR A STREAMLINED  
APPROACH TO IMPROVING THE PROCESS

by

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Lieutenant, Supply Corps, United States Navy  
B.S., United States Naval Academy, 1980

Submitted in partial fulfillment  
of the requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

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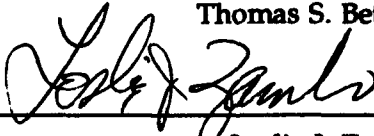
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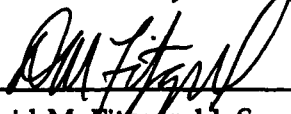


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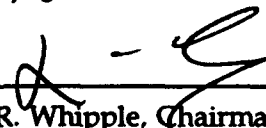
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## ABSTRACT

The purpose of this thesis was to research the financial impact of untimely contract closeouts. The contract closeout procedures at a Navy Contracting Activity and one of its corresponding Paying Activity's were reviewed. The data analysis from a sample of contracts indicated that a possible financial impact does exist. The following reasons for untimely contract closeout were cited: (1) lack of emphasis on the closeout process by management, (2) lack of communication between the contracting and paying activities , (3) non-use of available automation, and (4) lack of knowledge of the adverse financial effects of the closeout process. The thesis provides recommendations to correct these reasons in addition to a final recommendation to develop a Data Base Management System (DBMS). The DBMS recommended requires that it be utilized from the inception to closeout of the contracting process.



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## **I. INTRODUCTION**

This chapter introduces the purpose and objectives of the thesis by providing an overview of the acquisition process. It defines the problem statement, states the hypothesis that initiated the research, and defines the scope, methodology and data sampling plan used in the research.

### **A. PURPOSE**

The purpose of this research is to review the requirements involved in the contract closeout process, examine the delays in the process and determine the extent of the financial impact of these delays on the contract closeout process.

The closeout process for a contract generally starts with the final receipt and acceptance of material or services ordered and payment of the final invoice. The process continues through a myriad of tasks necessary to complete portions of the contract's requirements and ends when all actions are completed and the contract file is placed in records holding. The complexity of these actions is different for each type of contract.

The specific objectives of this research are:

1. Identify the requirements of the contract closeout process and determine if Navy activities understood and were complying with those requirements.

2. Measure by comparison the financial impact of actual data sampled to determine the magnitude of the problem Navy-wide.

## **B. THE ACQUISITION PROCESS**

The viability of the Navy and the Armed Forces of the United States is directly linked to the successful operation of the acquisition process. [1,p.1] The acquisition process is a dynamic procedure which includes the contracting process. The contracting phase includes three phases. The three phases are:

1. The Pre-Award Phase, which consists of defining the government's requirements, soliciting bids and accepting proposals from the contractor;
2. The Award Phase, which consists of selecting the contractor and signing of the contract by both parties; and
3. The Post-Award Phase, which consists of the contractor's performance of the contract, the government's acceptance of the goods or services, and the closeout of the contract after final delivery of performance.

These phases have become politically sensitive and therefore receive high level attention throughout the Department of Defense and Congress.

An important element of the contracting process is contract administration.

In many respects, the success of any procurement action hinges in large measure on how the contract is administered during its performance. In terms of multiplicity of functions involved and the time span of performance, contract administration has come to represent a major field in procurement. [1,p.2]

Contract administration begins during the Award Phase when a contract has been signed by both parties and awarded to the contractor. Contract administration usually includes monitoring the performance of the contractor and overseeing payment of the contractor. This procedure is in place to ensure that the government receives exactly the services or supplies for which it has contracted. The final element of the contract administration process is contract closeout. Contract closeout ensures that all required contractual actions have been performed and that all contract administration activities have been successfully completed. Contract closeout is completed with "official" closeout and archiving of the contract itself.

#### **C. BACKGROUND**

As defense funding becomes more austere, the amount of available appropriated funds will continue to be scrutinized by the Congress and Office of Management and Budget (OMB). The impact of the recent budget reductions is already apparent. The Navy has been forced to reevaluate its planning process as well as the way it executes its spending. The ability of the Navy to provide a credible justification of the need for procurement dollars depends on its ability to properly manage and control the funds it has been appropriated. Control becomes an important task imposed on management and its reduced work force. The control of

unliquidated obligations remaining on completed contracts is one area which must be carefully managed to allow the Navy to accomplish its mission within the budgetary requirements imposed today and without letting scarce funds sit idly unexpended.

#### **D. PROBLEM STATEMENT**

Once final deliveries on a contract are made and accepted, the level of interest shifts away from the completed contracts to the award and obligation of other new contracts or to the continued performance of active contracts. This lack of attention on completed contracts has resulted in the delay of the closeout of thousands of physically completed contracts, many of which have unliquidated obligations remaining on them. It is as one Head of Contracts at a major procurement activity put it, "a case of the tail wagging the dog". The obvious emphasis has been and remains today, on getting funds obligated to the contract, and contracts awarded and "out the door". From that point on, other than the attention paid to contract modification, there is little emphasis paid to the closeout process when performance comes to an end.

Audits by the Army Audit Agency discovered:

1. Major Weapons Systems Contracts: As of August 31, 1985, 7,708 contracts valued at upward of \$35 billion remained open with 10 major weapon system contractors. Of the 7,708 contracts, 2,654 (34.4 percent) valued at approximately \$6.5

billion were overdue for closeout. A sample of 90 of these contracts were audited and found to be overdue for up to 8 years.

2. Installation Level Contracts: Of 21 installation contracting offices audited, 17 had contracts overdue for closeout. A sample of 193 contracts overdue for closeout were reviewed. These contracts were valued at \$55.5 million. The majority of the contracts were between 15 to 60 months overdue; however, a few contracts were overdue for up to 99 months. [2,p.8]

During audits as late as 1988 conducted by the Air Force at six locations, it was estimated that \$62.6 million in unliquidated obligations was excess to the requirements of the contracts to which these funds were assigned. [3,Tab A,p.8]

The Navy, up to this point, has done few audits to determine the scope of the problem and has conducted little research on the subject of contract closeout.

The Army and the Air Force have conducted comprehensive analyses of contract closeout within their contracting activities to identify and develop an effective and efficient method of accomplishing the contract closeout function. Their primary concerns, as should be the Navy's, was the amount of over-aged unclosed contracts which could result in potential unfair tax advantages for the contractor, delayed obligations of funds that have become excess to contract needs, delayed return and potential loss of Government furnished material and equipment, and adverse public opinion of both the services. As a result of these services' determination to improve the contract closeout process, in March of 1987, the Deputy

Secretary of Defense (Procurement) issued a memorandum on untimely closeout of contracts. The memorandum established a Joint Contract Administrative Coordinating Council (JCACC) Working Group to develop a plan for improving the closeout of contracts.

The JCACC developed eight initiatives to expedite closeouts. Six required Federal Acquisition Regulation (FAR)/Defense Federal Acquisition Regulation (DFAR) changes. One has been implemented by the Defense Contract Audit Agency (DCAA) and one required a change to the Military Standard Contract Administration Procedures (MILSCAP). This effort is the only major effort that has been conducted, which included the Navy, in an attempt to improve the contract closeout process. [4,p.A-124]

#### **E. HYPOTHESIS**

The untimely closeout of contracts within the Navy results in a significant loss of appropriated dollars which should be deobligated and reprogrammed to meet other important needs of the Navy.

#### **F. SCOPE**

Contract closeout requirements vary with the contract type, dollar value and complexity of the contract. To emphasize the significance of the stated problem and hypothesis, the data for this thesis was limited to the

population of the existing contracts of an administrative section of a single Regional Contracting Activity and a single Payment Office, which handles approximately 30percent of the contracting activity's payments. The scope was limited to this single procurement activity's completed over-aged firm-fixed price contracts between \$25,000 and \$1 million which were paid by the selected payment office.

Firm-fixed price contracts were chosen because they require the least amount of effort to close out and therefore, if the data collected supported the hypothesis, the magnitude of the problem Navy-wide could be emphasized. Firm-fixed price contracts require the least amount of effort by the procurement contracting officer or his designated administrative contracting officer, to complete the closeout process and prepare the files for final storage either on site or at the Federal Records Center. This approach, of all contract models, was chosen to ascertain if a problem exists in this simple form, so then it can reasonably be assumed that other Navy activities, especially those that let much more complex contracts, may be experiencing the same problems but with far greater financial implications.

This representative sample was not scientifically developed but rather was derived from the unique situation which existed at the data collection point. The results do not accurately reflect a true random sample and, therefore, may not reflect the situation at other activities.



## **G. RESEARCH METHODOLOGY**

Site visits of a Contracting Activity and its supporting Paying Activity were conducted and data collection was made in compliance with the predetermined scope of the thesis.

### **1. Universe**

The population for this thesis consists of all over-aged completed contracts administered by the Department of the Navy (DON), or where applicable, the Department of Defense (DOD) components in support of Navy contracting activities. An over-aged, completed contract is one that has not been properly closed out within the time-frames set forth by the Federal Acquisition Regulations.

### **2. Population of Interest**

The population for this thesis consisted of all over-aged contracts which fall into two categories:

1. Those administered by a Navy Regional Contracting Activity, and
2. That Contracting Activity's contracts whose payments are made by a specific paying activity. Specifically, the paying activity represents a Navy Regional Finance Center, (NRFC). To ensure all anonymity, the NRFC will be addressed as the Paying Activity and the Navy Regional Contracting Activity will be addressed as the Contracting Activity.

### **3. Primary and Secondary Questions**

The primary question of the thesis is: Is the untimely closeout process of completed contracts resulting in a

significant loss of appropriated dollars, and if so, can a streamlined approach to improving the process be developed?

The subsidiary questions are:

1. What are the Contracting Activity's closeout procedures?
2. What are the Paying Activity's closeout procedures?
3. What are the mechanical procedures of both activities?
4. Are management control procedures in place to avoid delay of participating organizations?
5. What new actions can be taken to improve the process?

#### **H. SAMPLING PLAN**

The scope of the thesis was limited to only over-aged contracts labeled as category B, firm-fixed price except type contracts. The initial plan was to acquire a complete list of physically completed contracts from the Contracting Activity and determine from that list the contracts that fell within the scope of the thesis, i.e., firm-fixed price, between \$25,000 and \$1 million, administered by the selected Contracting Activity, and paid for by the supporting Paying Activity.

At the time the research for this study was conducted, a physically completed contract list did not exist. Therefore, an extensive and thorough search of the contract files in the contracts file room produced a satisfactory number of contracts to be selected to utilize as a representative

sample. The following information was extracted from each of the sampled contracts:

1. Type of Contract
2. Actual Physical Completion Date
3. Date of Final Payment
4. Reason for Closeout Delay
5. Total Contract Amount
6. Total Amount Billed
7. Unliquidated Obligation Amount
8. Amount Deobligated

Only those contracts, for which the above information was available, were retained in the sample data base.

#### **I. OVERVIEW OF THE THESIS**

The remainder of the thesis identifies the procedures of both the Contracting Activity and the Paying Activity, provides an analysis of the data collected, and makes recommendations for improvement.

## **II. CONTRACT CLOSEOUT PROCESS**

This chapter discusses the contract closeout process and the effects of untimely closeout. It contains the government's concerns of untimely contract closeout and the time standards for which contracts of various types are required to be closed.

### **A. BACKGROUND**

Timely closeout of contracts is essential to the Navy procurement process as well as the ability to continue to carry out the Navy's mission fiscally in light of the reduced defense budget. Timely closeout is required to ensure the Navy receives the quantity and quality of goods and services it has purchased and paid for. Prompt closeout allows for early detection of fraud, waste or abuse by contractors or Navy personnel and more importantly, provides the opportunity to identify unliquidated obligations which can be reprogrammed to meet other needs of the Navy.

### **B. GOVERNMENT'S CONCERNS OF UNTIMELY CLOSEOUT**

Only a few of the government's major concerns are to be addressed within this thesis in order to emphasize their importance in the universe of contract closeout:

1. Unliquidated Obligations: Unliquidated obligations remaining administratively on a physically completed contract can cause the expiration and lapse of appropriated dollars. In these situations, the dollars could have and should have been reprogrammed to other important unfunded requirements.

2. Government Furnished Equipment (GFE)/Government Furnished Materials (GFM): Government Furnished Equipment and materials cannot be made available for other contracts if this material remains at the contractor's site after completion of the contract. Additionally, the opportunity for fraud, waste, abuse and/or damage to government property can increase, the longer it remains in the contractor's possession after contract completion.

3. Interest Costs: Specific types of financing, such as progress payments, may result in unnecessary interest costs to the U.S. Treasury if overpayment occurs when these funds are not recovered in a timely manner through contract closeout. [2,p.3]

4. Internal Control: Accumulation of physically completed contracts which have not been closed out creates administrative as well as physical disruption (storage constraints) within the normal daily routine of a contracting organization. The backlog eventually requires an intensive effort to closeout and affords the opportunity for internal control failure.

5. Non-DOD Perception: The "back burner" priority of contract closeout at Navy Contracting Activities could be perceived by outsiders (Congress) as an attempt to cover up improper acquisition procedures or imply fraudulent activities. For example: closeout of a cost reimbursable contract, years after completion, which resulted in mischarging by the contractor, could imply mismanagement by the Contracting Officer. Timely contract closeout can alleviate this perception.

6. Contractor Well-Being and the Industrial Base: Timely closeout ensures that the contractor has been properly paid for his performance and therefore has not been caused any fiscal hardships by the government. This will allow the government to conduct future business with a satisfied contractor and indirectly assists in the further development of the industrial base. It also ensures government fiscal responsibility.

7. Administrative Burden of Inquiries: Timely contract closure, leading to the identification and resolution of

potential problems, reduces the likelihood of an administrative embarrassment while responding to inquiries from outside sources, such as auditors and inspectors.

8. Records: The process of closing contracts is proper management of the administration of contract records. [5,p.16]

9. Legal Claims: Timely contract closure tends to minimize legal claims or, where there are claims, tends to help in timely resolution. [2,p.4]

10. Overpayment: Overpayment to a contractor can exist as a result of differences between incurred overhead rates and final negotiated overhead rates. In this case the contractor has no incentive to repay the government for the overpayment until the contract is closed out. The contractor has received an interest free loan in the meantime.

### C. DEFINITION OF TERMS

To provide a common frame of reference, the terms used in the thesis are defined as follows:

1. Administrative Contracting Officer (ACO): The ACO is a warranted contracting officer who is responsible for the administration of awarded contracts. The ACO is delegated certain contract administration responsibilities either from the PCO of a contract or by legal regulations stated in the Federal Acquisition Regulation (FAR):

ACOs are normally assigned to Army, Navy, or Air Force Plant Representative Offices or to the Defense Plant Representative Office, Defense Contract Management Administration Office (DCAMO) and, as such, are frequently located at or near the contractor's plant. The ACO employs a supporting staff of engineers, industrial specialists, quality assurance specialists, property specialists, and contract administration specialists. The ACO virtually performs all Contract Administration functions, participates in negotiations with the contractors, completes many or most of the contract

closeout functions, and reports completed transactions and problems to the PCO.[2,p.2]

2. Contract Closure Process: The process of ensuring that all required contractual actions or obligations and contract administration have been successfully completed.

3. Contract Price (Firm-fixed Price Contracts): The total dollar amount of the contract to include the original contract amount plus any increases or decreases to that amount based on supplemental modifications, change orders, equitable adjustments, incentive fees, or claims to the original contract requirements. (This definition may not agree entirely with published journals but was derived as a result of this research.

4. Cost Reimbursement Contract: The type of contract used when the cost of the work to be performed cannot be specifically described to guarantee satisfactory performance by the contractor. The contractor under this vehicle is reimbursed for the allowable and allocable costs he experiences during the performance of the contract.

5. Date Physically Completed: The date the government accepts the final goods or services that have been contracted for. This date signifies the start date for the contract closeout time-frame requirement.

6. Firm-fixed Price Contract (FFP): Description: A firm-fixed price contract provides for a price that is not subject to any price adjustment on the basis of the contractor's cost experience in performing the contract. Application: A firm-fixed price contract is suitable for acquiring commercial products or commercial type products or for acquiring other supplies or services on the basis of definite functional or detailed specifications and when the requirement can be accurately detailed in the Statement of Work. When the contracting officer can establish fair and reasonable prices at the outset, such as when there is adequate price competition. There are reasonable price comparisons with prior purchases of the same or similar supplies or services made on a competitive basis or supported by valid costs or pricing data; available cost or pricing information permits realistic estimates of the probable costs of performance or; performance uncertainties can be identified and reasonable estimates of their cost impact can be made, and the contractor is willing to accept a firm-fixed price which shifts the risk to him in delivering the goods or services within the price and terms of the contract that is involved[6,Section 16-2].

7. Physically Completed Contract: A contract is physically completed when the contractor has delivered all supplies or all services and the government has inspected and accepted such supplies or services; any options have expired; there is evidence of final payment; and all administrative action such as litigation, a claim or an appeal is completed.

8. Procuring Contracting Officer (PCO): The contracting officer who awards the contract for the government and is the primary point of contact between the government and the contractor. The PCO has ultimate responsibility for the closeout of contracts he has awarded.

9. Over-aged Contract: A physically completed contract that has not been closed within the time-frames required by the FAR.

10. Unliquidated Obligation: Appropriated funds that have been obligated to a contract, but have neither been paid to the contractor nor deobligated from the contract.

#### **D. TIME STANDARDS**

The FAR, paragraph 4.804-1, provides specific time-frames for closing out contract files. Table 1 presents these time standards, with a description of the categories, for easy reference. The contract types have been categorized into four groups to provide a definition of the different time allowances for closeout, depending on the type of contract and complexity involved. This thesis concentrates on category B contracts. Category B contracts are firm-fixed price contracts, and based on their modest closeout requirements, are required to be closed out within a six-month period, following evidence by the contracting officer of physical completion.



**TABLE 1**  
**TIME STANDARDS FOR CONTRACT CLOSEOUT**

---

CATEGORY	CONTRACT TYPE	MONTHS FOLLOWING THE MONTH OF PHYSICAL COMPLETION
A	FIXED PRICE SMALL PURCHASE (25,000 AND BELOW)	3
B	FIRM FIXED PRICE EXCLUDING CAT A	6
C	COST REIMBURSEMENT (CONTRACTS REQUIRING SETTLEMENT OF INDIRECT COST OR OTHER RATES)	36
D	ALL OTHERS	20

---

EXCEPTIONS: A CONTRACT FILE SHALL NOT BE  
CLOSED OUT IF THE CONTRACT IS  
IN LITIGATION OR UNDER APPEAL,  
OR ALL TERMINATION ACTIONS HAVE  
NOT BEEN COMPLETED [6, Section 4-  
7]

---

Example: A firm-fixed price contract physically completed  
in January 1990 would require closeout no later than the end  
of July 1990.

A physically completed contract does not mean that the  
contract can be closed out and permanently filed. After  
contracts are physically completed, the contracting officer

conducts a closeout review to provide reasonable assurance that all financial and property transactions have been completed, and that government resources have not been lost through fraud, waste, abuse or mismanagement. The closeout procedures of the contracting activity are provided in Chapter III.

### **III. CONTRACTING ACTIVITY'S PROCEDURES**

This chapter introduces the regulation which governs the contract closeout process. It contains a step-by-step checklist of the procedures required for contract closeout as well as the identification of the problems that cause the delays in the process. Management controls within the contracting activity are also discussed. Subsidiary questions one, three and four are covered by the information provided in this chapter.

#### **A. FEDERAL ACQUISITION REGULATION (FAR) REQUIREMENTS**

FAR paragraph 4.804, Closeout of Contract Files, April 1984, provides guidance for contracting officers to close physically completed contracts. The FAR clearly states that the PCO has ultimate responsibility for the timely closeout of physically completed contracts.

#### **B. CONTRACT CLOSEOUT ADMINISTRATION PROCEDURES**

Contract closeout administration begins, by definition, upon physical completion of the contract. A myriad of tasks must be completed before the contract can be closed out. These tasks require interaction between various DOD activities such as Defense Contract Management Command (DCMC), Defense

Contract Audit Agency (DCAA) and Defense Plant Representative Offices.

The Defense Federal Acquisition Regulation (DFAR) requires that the DD Form 1597, Contract Closeout Check-list (Appendix A) be completed to ensure each step in the process has been appropriately addressed.

The checklist for contract closeout is summarized in Table 2, for those actions which may be required for a firm-fixed price contract. In comparison to Appendix A, the firm-fixed price contract involves significantly fewer steps to be completed during the closeout process.

**TABLE 2**  
**CHECKLIST FOR CATEGORY B CONTRACTS**

<b>ITEM</b>	<b>LOCATION IN CONTRACT FOLDER</b>	<b>LOOK FOR</b>	<b>ACTION REQD IF CHECKLIST ITEM IS FOUND</b>
1.	LAST FEW PAGES OF BASIC CONTRACT	DD FORM 254	ENTER "REQD" IN ROW 5A COL (C) 6 AND COMPLETE ROW- (R) 7; IF NOT FOUND ENTER IN C8 NR, NOT REQUIRED
2.	GENERAL PROVISIONS CLAUSE #	PATENTS CLAUSE	ENTER "REQ" IN C6 COM- plete C7, IF NOT FOUND ENTER NR C8 OF ROWS 5B, C, D, E
3.	GENERAL PROVISIONS BASIC CONTRACT CLAUSE #	VALUE ENGINEERING CLAUSE	ENTER "REQ" IN C6 COMPLETE C7, IF NOT FOUND ENTER NR IN C8 OF ROW 5G
4.	GENERAL PROVISIONS CLAUSE #	GFE/GFM CLAUSE	ENTER "REQ" IN C6 COMPL C7, OR ENTER NR IN C8 R 5H, 5I
5.	CONTRACT MODIFICATION	TERMINATION	ENTER "REQ" IN C6 COM- plete C7, IF NOT FOUND ENTER NR IN C8 OF ROW 5P
6.	CONTRACT FOLDER PAYING OFFICE CONTRACT FOLDER	FINAL PAYMENT VOUCHER	ENTER PAID IN C6 AND COM- plete C8 OF R 5T
7.	CONTRACT FILE; LAST MODIFICATION/ PAYMENT OFFICE	BALANCE OF FUNDS OBLIGATED	IF ZERO COM- plete C8, R5U OR ENTER \$AMT IN C6, COM- plete C7

Note 1: Category B contracts are FFP over \$10,000

Using the above checklist, the individuals responsible for completing the checklist must research each of them to ensure the proper documentation either physically exists in the file or is not applicable to the particular contract. The administrative responsibility for closeout is a joint venture between the contract specialist (negotiator), the contract administrator, and the file clerk.

At this point it should be mentioned that procedures at various contracting activities may differ in the assignment of the responsibilities for research of completion determination for the checklist items on the DD Form 1597 or those in Table 2. For simplicity and ease of understanding, the remainder of this chapter assumes that the contract administrator is assigned these responsibilities and that the words "contract specialist" could be substituted for the contract administrator if so desired, to conform to local established procedures that this research effort reviewed.

Once a contract has been awarded it is passed on to a contract administrator who is responsible for the administration of the contract. The PCO can retain administration or delegate it to the ACO. In this research it was held by the PCO. Contract administration is the management of all actions after the award of the contract to assure compliance with its terms. [7,p.163] The administrator will take any necessary action to ensure that the contractor performs the requirements delineated in the contract. The

majority of an administrator's actions include the preparation of modifications for any changes to the basic contract. A modification is required to change the scope (the scope of work applies to the total effort to be performed by a contractor in fulfillment of a contractual requirement) [7,p.124] of the contract and provide for any increase or decrease in funding.

After a contract is determined to be eligible for closeout, i.e., physically completed, the contract administrator begins the closeout actions. The contracts file clerk will forward the original contract file folder (previously filed after award) to the contract administrator within 30 days of the contract completion date. The contract administrator should review the contract working files to determine the status of the contract. If the contract is physically completed, the contract administrator should ensure that each item on the DD Form 1597 is individually reviewed as required for that specific contract type.

When all required actions have been completed, the administrator will prepare either a DD Form 1594, Contract Completion Statement (Appendix B) or a MILSCAP Format Identifier PK9 for signature by the Procuring Contracting Officer (PCO) or, if applicable, the Administrative Contracting Officer (ACO). The contract completion statement will be made a part of the official contract file. The contract file is then either retained in permanent storage at

the contracting activity's site or prepared for final shipment to the Federal Records Center for filing.

The above procedures are general standard operating procedures for most contracting activities within the Navy.

A few of the requirements covered by the DD Form 1597, invariably, are harder to complete and cause delays in the closeout process. These include:

1. FINAL PAYMENT (5T): Final payment is an important consideration in the closeout process. A contract cannot be closed out until proof of payment is received by the contracting officer. As necessary, the contract administrator should contact the paying activity to obtain a copy of the final voucher or a signed statement from the payment office that final payment has been made.

2. FUNDS REVIEW PROCESS: After final payment has been made, the contract administrator should conduct a funds review to determine if any unliquidated obligations remain on the completed contract. If so, the contract administrator should prepare a modification deobligating the funds from the contract. It is a result of this funds review process that excess funds are identified which should subsequently be deobligated and recouped.

#### **C. CONTRACTING ACTIVITY'S CLOSEOUT DELAYS**

Contract completion is accomplished by final payment and closeout which is contingent on inspection, acceptance, and delivery of the product. Government acceptance signifies that payment is due upon receipt of a proper invoice and expiration of the terms of the invoice or within thirty days in accordance with the Prompt Payment Act. Regardless of the apparent simplicity of this delivery and acceptance process the final closeout steps for major contracts is complex and lengthy. [8, p.385]

Although many of the government's concerns have previously been discussed, many sources of complexity and delay may occur. Some of these are included below, and are not all



applicable to firm-fixed price contracts, but are mentioned to emphasize the magnitude of the delay and problems in meeting the FAR requirements. They are:

1. Litigation, termination or disputes.
2. Government verification of time for services rendered and/or to audit costs incurred.
3. Completion of the government audit and determination of indirect cost rates. Indirect costs represent supporting effort to the main business of a company that cannot be directly assigned to individual projects. These costs, accumulated by cost groupings or pools (e.g., manufacturing overhead, engineering overhead, and general and administrative costs), must be certified by the contractor as allowable overhead costs (allowable costs by definition are costs which, if reasonable, allocable, in accordance with the terms of the contract, Generally Accepted Accounting Principles (GAAP) and, if applicable, Cost Accounting Standards (CAS) and regulatory cost principles may be deemed reimbursable under a given contract) [7,p.120] and audited by the Defense Contract Audit Agency before final cost negotiations between the AC and the contractor. [3,p.6]
4. Deliveries not in conjunction with the quantities required by contract, and therefore require modification or termination decision by the PCO.
5. Notification of final payment from the Paying Activities. This problem is compounded by the fact that in the near future, the paying activity will no longer be located at the same location as the procurement office due to the consolidation of all paying activities into one defense contract payment agency.
6. Contractor fails to submit final invoice which may also affect his tax position. [9,p.7]
7. Property clearance problems as a result of incomplete and inaccurate government records.
8. Acceptance of all Contract Data Requirements List (CDRL) deliverables.

Litigation is one of the few delays which may not be accelerated once it begins. However, as expressed in Chapter II, timely closeout tends to reduce the likelihood of protracted claims against the government. Most of these delays are inherent in the complexity of the acquisition process. However, there are only a few problems which may occur that could delay a firm-fixed price contract. These are:

1. The contractor does not deliver the quantities or services that the basic contract requires or is late with these requirements. PCO decision and administrative modification are necessary action to either change the quantity, extend the delivery date or terminate the contract, each of which could bring a request for equitable adjustment or claim against the government and further delay the contract closeout procedure.
2. The contractor does not submit an invoice for payment.
3. Certification that final payment has been made is not communicated from the Payment Activity to the administering office.
4. Lack of resources at the Contracting Activity. Financial and personnel resources. Most often cited reason for lack of resources are the annual "hiring freezes."

#### **D. MANAGEMENT CONTROL**

Management controls over the closeout process for physically completed contracts with unliquidated obligations must be effective to ensure unused or unneeded funds (obligations) are not lost as a result of delayed contract closeout. Effort should be made to ensure that deobligation

takes place prior to the expiration of the funds obligated to the contract. Government management controls must ensure that a funds review is conducted and that coordination with the Paying Activity takes place. This communication and coordination effort is imperative to ensure that differences between the Contracting Activity's and the Paying Activity's fund balances are reconciled. A sound management control system will prevent unnecessary administrative efforts.

Proper coordination and reconciliation between the Contracting Office and the Paying Activity is an example of a good internal control practice. This coordination will allow the PCO to have accurate information which he can use to determine the correct amount of unliquidated obligations, if there are any, to deobligate from the completed contract.

Only warranted PCOs and ACOs are authorized by the Navy to act in this capacity. Therefore, contract modifications to deobligate excess funds have to be approved by a PCO/ACO. To ensure that this requirement does not cause further delay in the closeout process, it is in management's best interest to assign each contract in the closeout process to a warranted PCO/ACO for oversight.

#### **IV. PAYING ACTIVITY'S PROCEDURES**

##### **A. OVERVIEW**

This chapter provides a background discussion of the requirements and responsibilities of the Paying Activity. In doing so it identifies opportunities to cause delays in making payments to dealers, contractors, and suppliers. The contract closeout process for the contracting activity is strongly dependent on the payment of the final invoice. This payment normally determines that the contract is physically complete.

##### **B. ASSIGNMENT OF THE PAYING ACTIVITY**

Each contract, when awarded, identifies a particular authorized paying activity which will be responsible for disbursing the funds obligated under that contract. The paying activity may be a Naval Regional Finance Center (NRFC), a Fleet Accounting and Disbursing Center (FAADC), a Regional Financial Services Center or an Authorized Accounting Activity (AAA). Although not yet completed, the results of the ongoing Defense Management Review will incorporate all of these activities under one agency, called the Defense Contract Finance Agency, Columbus, Ohio. The paying activity is assigned as the cognizant paying activity for a specified contract by contracting officer designation and distribution of a copy of the signed contract to the paying activity.

### **C. PROCEDURES AND RESPONSIBILITIES**

When the paying activity receives a copy of the contract identifying it as the paying activity, the financial process begins. The paying activity starts the process by recording the initial obligation on a Financial Accounting Data (FAD) sheet in accordance with the requirements of the Defense Federal Acquisition Regulation. Within the financial accounting data sheet, accounting classification reference numbers (ACRNs) are aligned with the contract line item numbers (CLINs) and sub-line item numbers. ACRNs represent the appropriation that is to be charged for accounting purposes and therefore along with the FADS must also be aligned with one ACRN per CLIN. This is also important for the automatic processing of the disbursement which is discussed later.

The paying activities must observe strict requirements that are imposed on the contractors for the submission of dealers' invoices. As a rule, policy calls for payment of all bills promptly and fairly. The Navy, therefore, requires that certain basic rules be followed by the contractor and the Navy. Each contract includes payment instructions for:

1. How invoices are to be prepared,
2. Where invoices are to be mailed, and
3. Where invoices will be paid.

The accuracy of the dealers' bills is imperative. The CLIN, the unit prices, and the company name must agree with those on the contract. If any of these items are incorrect, payment will be delayed. Payment can only be made within the limitations set forth in the contract. Any deviation from the limitations requires prior approval in writing from the contracting officer and a contract modification (MOD).

When the contract requires inspection and acceptance of the material by the government agency requesting the material, the contract will normally require that the invoices be submitted directly to the consignee of the contract. The consignee can therefore certify that the material or service has been inspected and accepted. The consignee then sends the paying activity the certified original invoice for payment.

When a contract requires inspection and acceptance at the contractor's location, the invoice must include a statement that the delivery of the said good or service has been made to a carrier or to a representative of the government and that the invoices be submitted directly to the paying office with the Material Inspection and Receiving Report (DD Form 250) signed by the government inspector.

The responsibility of the Paying Officer, also known as the Disbursing Officer, are as follows:

1. He signs the checks for approved invoices.
2. He must pay only in accordance with the terms of the contract.

3. He must have in his possession a copy of the contract, with all amendments and modifications from the contracting officer prior to payment of a dealers' invoice.

#### **D. DELAYS IN THE PAYMENT PROCESS**

The previous paragraphs have provided numerous requirements that are placed on both the contractor and the payment activity. A discrepancy in any one of them will cause a delay in the payment of the contractor's invoice. In addition to the above mentioned delay causing factors, the following list of factors must also be considered:

1. Was the invoice itemized to show the CLIN, description of material or services, unit price, extensions and total?
2. Were invoices mailed to the activities shown in the contract (as previously discussed, this may not be the paying activity)?
3. Did the invoice price and terms agree with the terms of the contract?
4. Were invoice extensions and totals verified?[10,p.27]

#### **E. THE PROMPT PAYMENT ACT**

The Prompt Payment Act (Public Law 97-177) was signed into law by President Reagan in 1982. This legislation required the Federal Government to pay interest on late payments made on contracts. The Act requires that federal agencies:

1. Pay their bills on time,
2. Pay interest penalties when payments are made late, and

3. Take discounts only when payments are made within the discount period.

The Act provides that interest will be paid on valid invoices for materials/services, if not paid within the time specified by the contract.

The introduction of the Prompt Payment Act now requires paying activities to be more efficient and pay dealers' invoices on time. The existence of the Act aids in the contract closeout process, in that normally, once a contractor finally submits his final invoice, the bill is promptly paid and thus the Contracting Activity can continue with the closeout process. The lack of an established method or requirement of conveying this payment information is still, however, one of the leading delay factors in the closeout process.

#### **F. THE PAYING ACTIVITY AND THE CONTRACTING PROCESS**

The Paying Activity maintains manual Contract Control Records (CCR) for those contracts for which it has been designated the cognizant paying activity. If the Paying Activity is also the Authorized Accounting Activity (AAA) for the consignee, designated by the unit identification code (UIC) who submitted the requirement, the obligation is loaded into the computer system at the activity. This system will automatically deduct expenditures and pay the certified



dealers' invoices for these contracts. An AAA will usually have financial administrative control for approximately 150 activities with which it does business. An example is the Navy Regional Services Office in Oakland. This Paying Activity may be tasked by contract to make payments on dealers' invoices for a procurement which has been requested by the Naval Supply Center, Oakland. This obligation for the contract is loaded via data entry into the financial offices' local computer system, known as the Integrated Disbursing and Accounting system (IDA). The IDA is an effective tool for inquiries made by the Paying Activity. IDA allows for the automatic processing of dealers' bills and provides query capability for the Fund Administrators which have a direct link to the Paying Activity's IDA system.

However, IDA is not available for all UICs and therefore requires the Paying Activity to maintain manual records of all actions against those UICs' contracts. As bills are received and paid from invoices certified by the receiving activity, a manual reduction of funds occurs on the Contract Control Record. The Paying Activity's contract files should include supporting documents such as shipment, acceptance or receiving reports, authorization for advance and progress payments, as well as a signed copy of the original and all modifications to the contract. [11,p.204.8-1] The paying activity takes action to add or delete funds as a result of contract modifications. If at any point a certified invoice is received requesting

payment and the financial accounting records indicate a shortage of funds, the financial officer must receive a contract modification from the ACO or PCO to cover the difference prior to payment of the certified invoice.

SECNAVINST P5212.5 requires that each Paying Activity review its CCRs annually.[12,p.23] Records relating to transactions of more than \$10,000 are placed in an inactive file. The inactive file is required to be transferred to the nearest records center when it is six months old. These records are held for six years and then destroyed.

Contract closeout for the Paying Activity differs from that of the Contracting Activity. The FAR, paragraph 4.804-3, states that the paying office shall close the contract file upon issuance of the final payment voucher.[6,p.4-7] The Paying Activity has no requirement to contact the Contracting Office prior to closing out its own Contract Control Records. The Paying Activity may or may not attempt to deobligate any funds remaining on the contract. Therefore, a contract that has been closed out by the Paying Activity may not have been closed out by the Contracting Activity that issued the contract. More importantly, unliquidated obligations may still exist on contracts already retired to the Federal Records Center.

## **V. DATA ANALYSIS**

The data analysis focused on four major areas. The first area is the data base which was used for the actual research taken from the Contracting Activity to the Payment Activity. The second area reviewed is the total number of contracts sampled and those with unliquidated obligations. The third area analyzed is the total dollar value of the contracts sampled and the total dollar value of those contracts with unliquidated obligations. Finally, an analysis of the percent of the dollar value of unliquidated obligations to the total dollar value of contracts sampled, which contained unliquidated obligations was conducted. The limitations and assumptions that constrained this research are also presented in this chapter.

### **A. DISPOSITION OF THE DATA BASE**

The research involved the initial analysis of 120 over-aged contracts which were believed to adhere to the limitations set forth in the scope of this thesis. However, as the research progressed, the sample was decreased to a total of 42 contracts. This decrease was due to the nonexistence of a current list of contracts on file at the site visited. Many of the contracts in the file room were not

on record when researched at the Paying Activity. The population of interest was extracted from a thorough review of the Contracting Activity's file room and compared to the CCRs records on file at the Paying Activity.

It is reemphasized that this sample was not a scientific sample or audit and therefore the results may not be representative of all Navy Contracting Activities. It can be inferred that since all Navy activities are required to administer their contracts in accordance with the FAR, that some homogeneity exists and provides a plausible basis to apply this analysis to the entire Navy contracting arena.

There were three reasons why some contracts were deleted from the original population:

1. There were 28 records that were not on file at the Paying Activity as indicated by the Contracting Activity.
2. There were 47 contracts that were deleted because no physical contract existed in the file room for the contract number provided by the contracting activity.
3. Three contracts were deleted because the Paying Activity had been transferred via modification to another Paying Activity and therefore no payment records were on file at the Paying Activity.

**B. SUMMARY OF DATA COLLECTED**

Table 3 is a summary of the population sampled and the results as they relate to each other. The relationships are shown in the figures following Table 3.

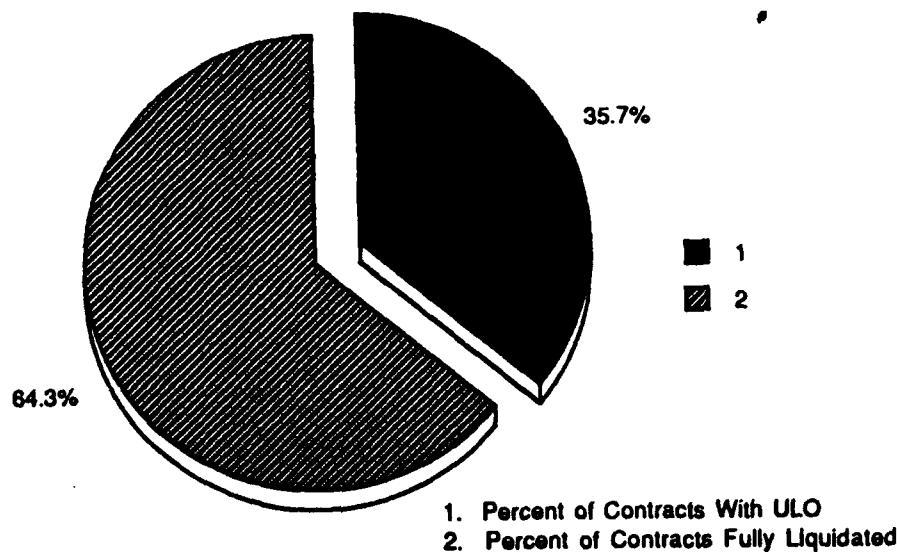
**TABLE 3**

**SUMMARY OF CONTRACTS INCLUDED IN RESEARCH**

TOTAL NUMBER CONTRACTS SAMPLED	42	35%
TOTAL NUMBER CONTRACTS WITH ULO	15	Figure 5-1
TOTAL DOLLAR VALUE OF CONTRACTS SAMPLED	\$3,674,184	
TOTAL VALUE OF SAMPLE CONTRACTS WITH ULO	\$1,254,383	34%
TOTAL VALUE OF ULO	\$240,716	Figure 5-2
AVERAGE TIME OVER-AGED	39 MONTHS	

Row 1 indicates that 42 contracts were 35 percent of the total population of 120 contracts, numbers of the original

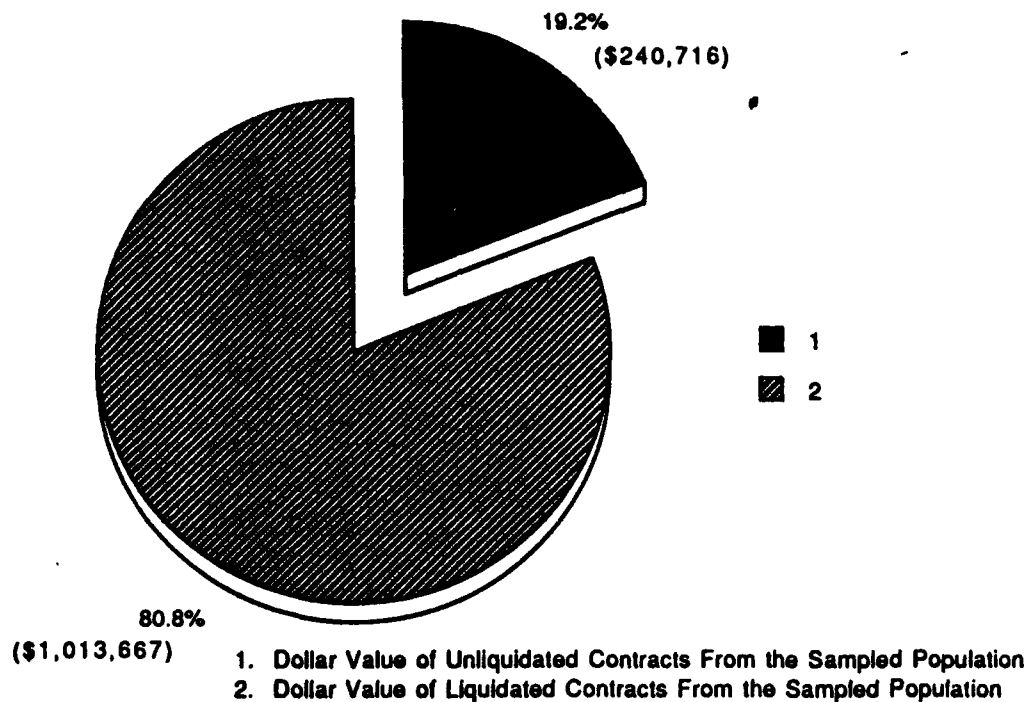
contract file room list. The data in the remainder of Table 3 are illustrated in Figures 5-1 and 5-2.



**Figure 5-1**

Figure 5-1 illustrates the distribution of the number of contracts out of the sample that contained unliquidated obligations (ULOs). The total number of contracts sampled was 42. Of these 42 contracts, 15 had unliquidated obligations still attached to them. This indicates that 35.7 percent of the sample contained unliquidated obligations.

still attached to them. This indicates that 35.7 percent of the sample contained unliquidated obligations.



**Figure 5-2**

Figure 5-2 illustrates the distribution of the amount of ULOs that are still assigned to over-aged contracts. The total dollar value of the sampled contracts was \$3,674,184.

The contracts containing ULOs were valued at \$1,254,383 with unliquidated funds totaling \$240,716. Thus the dollar value of the 15 contracts with unliquidated obligations represented 34 percent of the total of dollar value of the population. The dollar value of the unliquidated funds represented 19.2 percent of the total dollars obligated to the 15 sampled contracts.

**C. FACTORS EFFECTING CLOSEOUT DELAY**

Research indicated that no verifiable contract closeout actions had taken place in over one year. Table 4 contains is a list of factors which may have slowed the contract closeout system down.

**TABLE 4  
AVERAGE TIME DELAY FOR SPECIFIC  
FACTORS FOR 120 CONTRACTS**

<b>FACTORS</b>	<b>AVERAGE TIME DELAY</b>
<b>AWAITING FINAL DEALERS INVOICE</b>	<b>90 DAYS</b>
<b>PAYMENT UPON RECEIPT OF DEALERS INVOICE</b>	<b>30 DAYS</b>

Table 4 brings to bear two additional factors that impact the closeout process. The payment of dealers' invoice average time delay figure was skewed by a few dealers' invoices which were delayed significantly. The prompt payment of dealers' bills is an important factor in determining when a contract



can be closed out and it should be noted that delayed payment was not an attributable factor to the average over-aged time indicated in Chapter III.

#### **D. ASSUMPTIONS**

##### **1. Contract Value vs Over-aged Delay**

An assumption was made about the data research, that some type of relationship may exist between the value of the contract and the length of time it is over-aged. Since no closeout effort had taken place in over a year this assumption could not be analyzed.

Additionally, the impact on the factors listed in Table 4 which are primarily dependent on the efficiency of the Payment Activity could not be determined.

##### **2. ULO Value vs Over-aged Delay**

The assumption that as the amount of ULO increased the over-aged time span should have decreased, could not be investigated, because no prioritizing closeout actions existed. [1,p.74]

## **VI. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

This chapter contains the conclusions of the research effort. Conclusions associated with the research hypothesis and conclusions associated with the overall process by both the Contracting and Paying Activities are presented first. The conclusions are followed by recommendations relating directly to findings during the research as well as recommendations for future study. A summary of the thesis to include a response to the research questions will conclude this chapter.

### **A. DISCUSSION**

Timely contract closeout is required to ensure that the Navy receives the quantity and quality of goods and services ordered and paid for . The closeout process is governed by closeout time-frames established by the Federal Acquisition Regulation. The required steps necessary to ensure all administrative actions have taken place are provided for and required by the Defense Federal Acquisition Regulation in DD Form 1597, Contract Closeout Checklist.

A major portion of this research effort was concerned with the procedures and responsibilities of both the contracting activity and the paying activity. The administrative

procedures of both activities, in regard to contract closeout, are lacking and should be reviewed. Although the contracting activity had written procedures for contract closeout on file, neither activity was following their written procedures.

## **B. FINDINGS AND RECOMMENDATIONS**

The delays to the contract closeout process are varied and many, yet, in the case of this research, they are not the causative factors. The lack of emphasis and disregard for the requirements of contract closeout by contracting personnel has, in itself, made the most impact over all other reasons for over-aged contracts.

The findings and recommendations made will be directed predominantly at the problems found during the research. However, as a result of informal discussions with personnel at other contracting activities and the disregarded closeout process which exists today, these recommendations may be helpful to all activities that play a role in the contract closeout process. The recommendations are made to accelerate the closeout process and make it less burdensome. The findings and recommendations will be separated by those of the Contracting Activity, the Paying Activity and those that were related to both. The areas addressed for the Contracting Activity include:

1. Education of contract closeout process.

2. Performance standards.
3. DD Form 1597, Contract Closeout Check-list.
4. FAR time-frames.
5. Closeout emphasis.
6. Personnel assignment.
7. Procurement Management Review (PMR).

The areas addressed for the Payment Activity include:

1. Contract Control Record (CCR) closeout.
2. Dealer's invoice.
3. Instructions and operating procedures.

The areas addressed that apply to both include:

1. Internal control.
2. Communication.
3. Automation.

**1. Contracting Activity**

**a. Education of contracting personnel.**

(1) *Finding:* Contract closeout was given a low priority and the negative effects of delayed closeout were not understood by management or by subordinates. Contracting personnel are not aware of the requirements of the closeout process and the adverse effects of delayed closeout.

(2) *Recommendation:* Educating contracting personnel on the closeout process should be done at the local level, by those having received formal contracting education. The formal education of the closeout process and the adverse effects of untimely closeout should be taught at the contracting schools from the Defense Contracts Management Basic Course, offered by the Army Logistics Management Center (ALMC), Fort Lee, Virginia, up to and including the Naval Postgraduate School, Monterey, California.

***b. Performance standards***

(1) *Finding:* There was no indication or knowledge of the exact number of completed contracts in the file room. Therefore, it was unknown as to the total numbers that required closeout. Personnel performance was measured on the rate and number of contracts awarded, yet no level of performance was measured for the rate or number of contracts closed.

(2) *Recommendation:* In order to improve the contract closeout process, performance plans for contracting personnel should include performance standards for contract closeout. [13,p.5]

***c. DD Form 1597, Contract Closeout Checklist.***

(1) *Finding:* Research indicated that contract numbers were assigned to a DD Form 1597. However, not a single action had been taken on the sampled contracts towards

completion of the DD Form 1597s. The contracts reviewed were dated between 1984 and 1990.

(2) *Recommendation:* The DD Form 1597, Contract Closeout Checklist, should be used to forecast and monitor milestones for completion of various administrative closeout actions. Use of the DD Form 1597 should be mandatory for all category B,C, and D type contracts. Desk guides should be developed to ensure a continuous and streamlined effort in the closeout process. Defining an abridged version of the checklist for each type of contract, as is done in Table 2, will allow for some streamlining of the process. This procedure, if implemented in the early stages of the contracting process, will ensure that all administrative actions have been taken to properly closeout the contract.

**d. FAR time-frames**

(1) *Finding:* As is the case of the 42 contracts reviewed, each contract that becomes physically completed will most likely exceed the established FAR time-frames. This is as a result of no closeout action on those completed for the previous years, and no plan of action for the future.

(2) *Recommendation:* The time-frames required by FAR are more than sufficient to close out fixed-price contracts, provided management enforces existing closeout procedures and the Contracting Activity does not wait until

the time-frame has passed prior to beginning the closeout process.

**e. Closeout Emphasis**

(1) *Finding:* The Contracting Officer gave contract closeout a low priority in the contracting workload. The personnel assigned to contracting continually commented that their priorities were to award contracts and obligate funds.

(2) *Recommendation:* Management at all levels should place emphasis on the closeout process. The results of the data analysis in Chapter V shows the financial impact of untimely closeout. Management should prioritize closeout of those contracts with the highest dollar value of unliquidated obligations.

**f. Personnel assignment**

(1) *Finding:* No contract specialist or contract administrator was officially assigned to conduct contract closeout. The administrators were more concerned with active contract problems.

(2) *Recommendation:* Contracting officers should ensure that administrators and negotiators assigned specific contracts are also involved and responsible for their closeout process. Recommendation B.1.b.(2), Performance standards, discussed earlier, will assist in management control over this finding.

**g. Procurement Management Review (PMR)**

(1) *Finding:* The previous local PMR identified problems in the closeout process, yet no corrective action had taken place to correct the discrepancies identified.

(2) *Recommendation:* Management needs to place emphasis on correcting deficiencies of the PMR. PMR results should be viewed as constructive assistance and correction of deficiencies noted will improve the performance of the Contracting Activity.

**2. Paying Activity**

**a. Contract Control Record (CCR) closeout**

(1) *Finding:* Contract Control Records for 27 of the 42 contracts, for which final payment had been made, were still on file. This included files as old as 1984, whose completion date was 1984 and whose final payment date was 1984.

(2) *Recommendation:* When final payment has been made on a contract by the Payment Activity, the clerk recording the payment in the record (CCR) should determine if the contract balance of available of funds is zero. If the balance is zero, the clerk should check the required completion date and the contract to ascertain if the contract requirements are completed, or if options for future buys still exist. Upon determination that a contract is complete or the period of performance has expired, and no dollars



remain, the contract should be closed. If the contract completion date has passed, and funds remain on the contract, the clerk should have a means of communicating this information to the PCO/ACO whose name appears on the contract. This will expedite the closeout process for both activities.

***b. Dealer's invoice***

(1) *Finding:* Contractors contributed to the lengthy over-aged delays by their late submission of invoices, and their late responses to queries from the contracting officer.

Although it has been shown that late submission of dealer invoices may have delayed the process, their impact cannot be accurately measured and therefore only a theoretical recommendation can be made.

(2) *Recommendation:* Consider legislation to change the FAR, to implement a clause in contracts that requires dealers to submit invoices or correspondence in a precise time-frame and penalize by assessing a penalty fee on those who do not comply.

***c. Instructions and operating procedures***

(1) *Finding:* Supervisory personnel were extremely confident and knowledgeable in their respective areas. However, no formal instructions or operating procedures for new personnel, or in the absence of the supervisors, existed to ensure that this knowledge was readily available.

(2) *Recommendation:* Supervisors and management personnel should develop operating procedures, in writing, for their respective areas of responsibility. This will allow subordinates to increase their knowledge of the entire closeout process thus increase productivity. Written instructions will reduce daily interruptions of managers by subordinates and allow managers the opportunity to look for ways to become more efficient.

### 3. Problems of Both Activities

#### a. Internal control

(1) *Finding:* Internal control weaknesses in contract closeout were obvious in every facet of both operations. As a result, internal controls for the process were weak and ineffective. The Navy actions to improve the closeout process have been limited to date. The activities visited were not devoting any personnel or automation to closeout. A telephone conversation with Nanette Audet of the Defense Contract Audit Agency (DCAA) indicates that higher level commands do not feel that the scope of the closeout problem is big enough to warrant concern. This lack of attention to the closeout process at both activities has resulted in the continued increase of contracts overdue for closeout.

(2) *Recommendation:* Strengthened internal controls are needed at all levels of command to properly implement closeout and speed up the closeout process. Development and implementation of a well planned and utilized report generating phase of a data base management system (DBMS) as discussed later in this chapter, could correct this problem.

**b. Communication**

(1) *Finding:* No formal method of communication existed between the Contracting Activity and the Paying Activity. Both activities require that information be passed to each other in order to conduct routine business. The Paying Activity closes out contracts after conducting its own review. If no action has been recorded against the contract over a period of time determined by the activity, the files are closed regardless if funds still exist in the CCR. Conversations with financial personnel indicated that closeout actions had not been conducted in over ten months. The Navy Comptroller's Manual does not require the distribution of final payment vouchers to the PCO/ACO administering the contract, although the final voucher is required by the DD Form 1597 for the closure of a contract. [14,p.13]

(2) *Recommendation:* Local procedures should be implemented to incorporate the distribution of information required by both activities, e.g., the DD Form 250, and proof of final payment, which are normally required by both

activities. Coordination and communication between the Contracting Activity and its cognizant Paying Activity will remove the uncertainty of whether related actions have been completed.

**c. Automation**

(1) *Finding:* The lack of the use of automation at the Contracting and Paying Activity made it difficult to determine the extent (in numbers of contracts over-aged) that the delays caused on the closeout process. These examples however demonstrate the adverse conditions:

(a) Data Base. No data base existed for the completed contracts that were on file at the Contracting Activity or Payment Activity.

(b) Backlog. Contracts qualifying for closeout existed from 1984 to 1990.

(2) *Recommendation:* The Contracting Officer and/or Disbursing Officer should know which contracts are active or completed in their files and have access to the status of all contracts under their responsibility in order to exercise control over their organizations. To clear this size backlog, personnel will have to be diverted from other contracting functions, and perhaps the use of expensive overtime will be required. With such a large backlog, a one time "contracting out" of the closeout process to a contractor may be appropriate. The Contracting Activity had access to numerous

personal computers (PCs) for use by contracting personnel. PCs were available on almost every contract negotiator's and contract administrator's desk. These PCs contained the necessary software to facilitate the use of a database and database management system to not only monitor the contract closeout process but also monitor the status of all contracts in the system from the time the solicitation number is assigned to the final step of contract closure.

### C. THESIS RECOMMENDATION

The contract closeout process is one element of the overall acquisition and contracting process. Closeout, which completes all the individual actions started during earlier parts of the contracting process can be very complex and time consuming.[11,p.3] This final and most important recommendation of the thesis concerns the development of a Data Base Management System (DBMS). A DBMS with procedures imposed to incorporate all participants in the closeout process from inception to completion, to allow for a streamlined and timely process to contract closeout.

The Navy should develop a DBMS for the entire Department of the Navy (DON) contracting community. However, until this is accomplished, local activities are recommended to develop their own system that can be tailored to their own operations.

DBMS is a software system that allows access to stored data by providing an interface between users or programs and their stored data.

DBMS is software. It allows the creation, use and maintenance of data bases. Yet, because it is application independent, it can be used in a variety of environments and application settings, such as management report generation, status query, financial review, etc.

The data base is an integrated collection of data stored in different record types. The purpose of storing and organizing data in a data base is to represent a relationship between entities of interest to the organization [15,p.331], a result that cannot be achieved with individual master files.

Management applications do not focus on the storage and processing efficiency, but rather on the retrieval of information needed to process inquiries.

A data base for the Contracting Activity should consist of the basic information that is currently recorded for each solicitation or request for proposal that is issued by that activity. The program should consist of easy-to-complete preformatted screens for each step in the acquisition process conducted at the Contracting Activity. As the contract progresses, through its stages, the negotiators, administrators, financial clerks and Contracting Officers make updates as they occur. Therefore, by the time the contract is physically complete, only a few checklist items will require

research, resulting in a more timely closeout process. Local procedures will need to be developed and implemented to ensure control is maintained. These steps should not be in such detail so as to restrict the organization's output requirements, and therefore, some local development of procedures is required.

This DBMS should include a modem or direct link capability between the Paying Activity and Contracting Activity for the direct transfer of data required by both activities. This link is critical, and with the use of passwords and security checks on the system, should maintain the necessary security over the information contained therein.

#### **D. RECOMMENDATIONS FOR FURTHER STUDY**

This research effort disclosed several areas of the closeout process warranting further research.

The researcher did not address all types of contracts, but the assumed that these other contracts are also experiencing major contract closeout delays beyond the times required by the FAR, as well as the resultant loss of appropriated funds, which could be used for other needs. Additional research of these more complex and high dollar type contracts may make the magnitude of the financial impact of untimely contract closeouts more visible.

Research into the development of a system-wide D-Base III or compatible DBMS program mentioned above for the entire

Navy, should initiate actions which may result in a standardized and streamlined process to an unstructured and important portion of the acquisition process.

## **E. SUMMARY**

### **1. Primary Question:**

Is the untimely closeout process of completed contracts resulting in a significant loss of appropriated dollars, and if so, can a streamlined approach be developed?

The answer to the researcher's hypothesis is that the untimely contract closeout process within the Navy results in a significant loss of appropriated dollars which should be deobligated and reprogrammed to meet other important needs of the Navy.

The analysis in Chapter V support the hypothesis; that untimely contracts closure is resulting in the loss of appropriated funds. Although the sample numbers and dollar values indicated are small, as a result of the restrictions on the scope of the population of contracts sampled, the implications are not.

The research indicated that 35.7 percent of the over-aged, completed contracts had unliquidated obligations; Contracts with dollar values equivalent to 34 percent of all dollars assigned to the population of contracts sampled were unliquidated, and 19.2 percent of the 34 percent were actual unliquidated obligations.



A 19.2 percent loss of available funds represented only \$240,716 here, but in comparison to the total amount of dollars in the acquisition process, this 19.2 percent could represent billions of dollars.

The fact that these percentages of unliquidated obligations are the result of studying only one Contracting Activity and one Paying Activity, and utilizing only the most basic types of contracts which require the least amount of effort to close, implies that the contract closeout process could have significant financial impact on the Navy, particularly in an ever decreasing budget climate.

## **2. Subsidiary Questions**

**a. What are the Contracting Activity's closeout procedures?**

This question is examined in Chapter II.

**b. What are the Paying Activity's closeout procedures?**

This question is examined in Chapter III.

**c. What are the mechanical procedures of both activities?**

This question is examined in both Chapters III and

IV.

**d. Are management control procedures in place to avoid delay of participating organizations?**

This question is treated on throughout the thesis. The lack of involvement by management in this process is indicative in the findings of the data analyses, as well as the apparent incompleteness of sufficient manageable data bases necessary for internal control. The answer to this question is summarized in recommendations for Internal Control and Emphasis of this chapter.

*e. What new actions can be taken to improve the process?*

The development of a Data Base Management System utilizing the available software (Enable, D-Base III, Plus, IV) and hardware, currently available to most Contracting and Paying Activities, which incorporates the DD Form 1597, physically completed data base (from PK9 cards or DD Form 1594, Contract Completion Statement) and local procedures, is the vehicle which should be used to help improve the contract closeout process.

## Appendix A

### DEPARTMENT OF DEFENSE FORMS

#### DD Form 1597: Contract Closeout Check-List

CONTRACT CLOSEOUT CHECK-LIST <small>(Continue on reverse for any comments)</small>				1. CONTRACT NUMBER	
3. NAME OF CONTRACTOR				2. CONTRACT MODIFICATION NUMBERS (if applicable)	
4. DATE OF PHYSICAL COMPLETION (YYMMDD)	6. MILESTONES/CALENDAR MONTHS AFTER PHYSICAL COMPLETION (FAR # 804-1)			7. FORECAST COMPLETION DATE (YYMMDD)	8. DATE ACTION COMPLETED (YYMMDD) (NA if not applicable)
5. ACTION ITEMS	Category 1	Category 2	Category 3		
a. DISPOSITION OF CLASSIFIED MATERIAL COMPLETED					
b. FINAL PATENT REPORT SUBMITTED (Inventions Disclosures) DD 882					
c. FINAL ROYALTY REPORT SUBMITTED					
d. FINAL PATENT REPORT CLEARED (Inventions Disclosures)					
e. FINAL ROYALTY REPORT CLEARED					
f. ISSUANCE OF REPORT OF CONTRACT COMPLETION					
g. NO OUTSTANDING VALUE ENGINEERING CHANGE PROPOSAL (VECP)					
h. PLANT CLEARANCE REPORT RECEIVED DD 1593					
i. PROPERTY CLEARANCE RECEIVED DD 1593					
j. SETTLEMENT OF ALL INTERIM OR DISALLOWED COSTS (DCAA Form 1)					
k. PRICE REVISION COMPLETED					
l. SETTLEMENT OF SUBCONTRACTS BY THE PRIME CONTRACTOR					
m. PRIOR YEAR OVERHEAD RATES COMPLETED					
n. CONTRACTOR'S CLOSING STATEMENT RECEIVED					
o. FINAL SUBCONTRACTING PLAN REPORT SUBMITTED					
p. TERMINATION DOCKET COMPLETED DD 1593					
q. CONTRACT AUDIT COMPLETED					
r. CONTRACTOR'S CLOSING STATEMENT COMPLETED					
s. FINAL VOUCHER SUBMITTED SF 1034					
t. FINAL PAID VOUCHER RECEIVED SF 1034					
u. FINAL REMOVAL OF EXCESS FUNDS RECOMMENDED					
v. ISSUANCE OF CONTRACT COMPLETION STATEMENT (D: AMSCAP Format Identifier PRE)	6	36	20		
w. OTHER REQUIREMENTS COMPLETED (Specify)					
9. RESPONSIBLE OFFICIAL					
a. TYPED NAME (Last, First, Middle Initial)			b. TITLE		
c. SIGNATURE (Sign only upon completion of all actions)				d. DATE SIGNED (YYMMDD)	

DD Form 1597, NOV 88

Previous editions are obsolete

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## Appendix B

### DEPARTMENT OF DEFENSE FORMS

#### DD Form 1594: Contract Completion Statement

CONTRACT COMPLETION STATEMENT		
1. FROM: (Contract Administration Office)		2a. PN NUMBER
		1b. LAST MODIFICATION NUMBER
		1c. CALL/ORDER NUMBER
3. TO: (Name and Address of Purchasing Office and Office Symbol of the PCO, if known)		4. CONTRACTOR IDENTITY CODE AND ADDRESS
		5. EXCESS FUNDS <input type="checkbox"/> YES <input type="checkbox"/> NO
6a. IF FINAL PAYMENT HAS BEEN MADE, COMPLETE ITEMS 6b., AND 6c.		6b. VOUCHER NUMBER
7a. IF FINAL APPROVED INVOICE FORWARDED TO D.O. OF ANOTHER ACTIVITY AND STATUS OF PAYMENT IS UNKNOWN, COMPLETE ITEMS 7b. AND 7c.		7b. INVOICE NUMBER
		7c. DATE FORWARDED
8. REMARKS		
9a. ALL ADMINISTRATION OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED. THIS INCLUDES FINAL SETTLEMENT IN THE CASE OF A PRICE REVISION CONTRACT		
9b. TYPED NAME OF RESPONSIBLE OFFICIAL	9c. SIGNATURE	9d. DATE
FOR PURCHASING OFFICE USE ONLY		
10a. ALL PURCHASING OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED. CONTRACT FILE OF THIS OFFICE IS HEREBY CLOSED AS OF:		
<input type="checkbox"/> DATE SHOWN IN ITEM 9d. ABOVE. <input type="checkbox"/> DATE SHOWN IN ITEM 10b. BELOW. (Check this box only if final completion of any significant purchasing office action extends more than three months beyond close-out date shown in item 9d. above. In such cases, submit a copy of the completed form upon final accomplishment of all purchasing office actions to the contract administration office. Upon receipt, the contract administration office shall extend its contract file close-out date accordingly.)		
10b. REMARKS		
10c. TYPED NAME OF RESPONSIBLE OFFICIAL	10d. SIGNATURE	10e. DATE

DD FORM 1594  
1 FEB 70

REPLACES EDITION OF 1 JUN 60 WHICH IS OBSOLETE

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